

THE
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Pay-It-Forward Revolving Funds: How to Start and Grow One

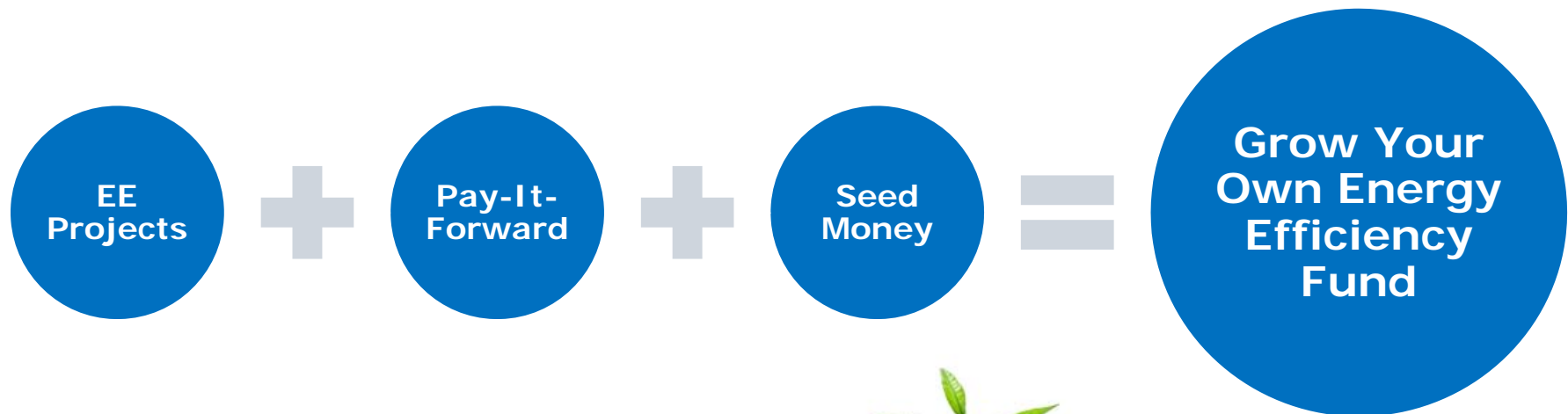
NASEO Finance Committee Meeting

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The Cadmus Group
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Pay-It-Forward May Interest You If...

- ... you can identify good energy efficiency (EE) projects at state facilities**
- ... you want to start or grow a fund to pay for these projects**
- ... you need to find seed money to start a fund**
- ... you would like to build support for EE**
- ... you know states, municipalities, colleges, or school districts that may want to fund EE**

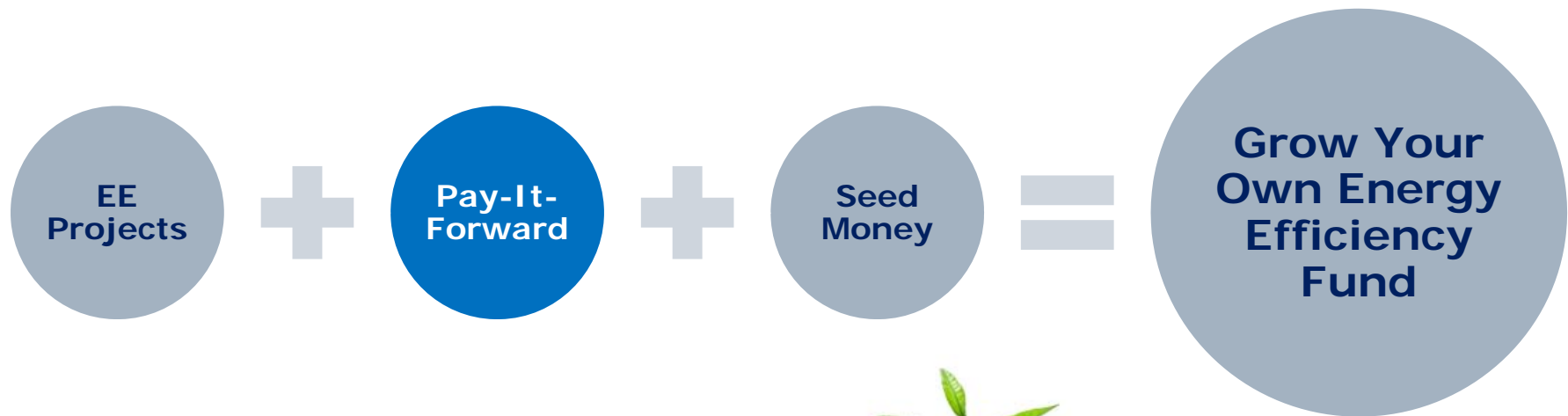
Three Elements to Growing a Fund



EE Projects Save Money

- **But upfront costs create an obstacle**
- **The solution can be to finance the projects**
- **The operating savings repay the financing, then help with budget relief or other goals**
- **Financing payments can be structured to be cash flow positive (savings > payments)**
- **But how do EE projects grow a fund?**

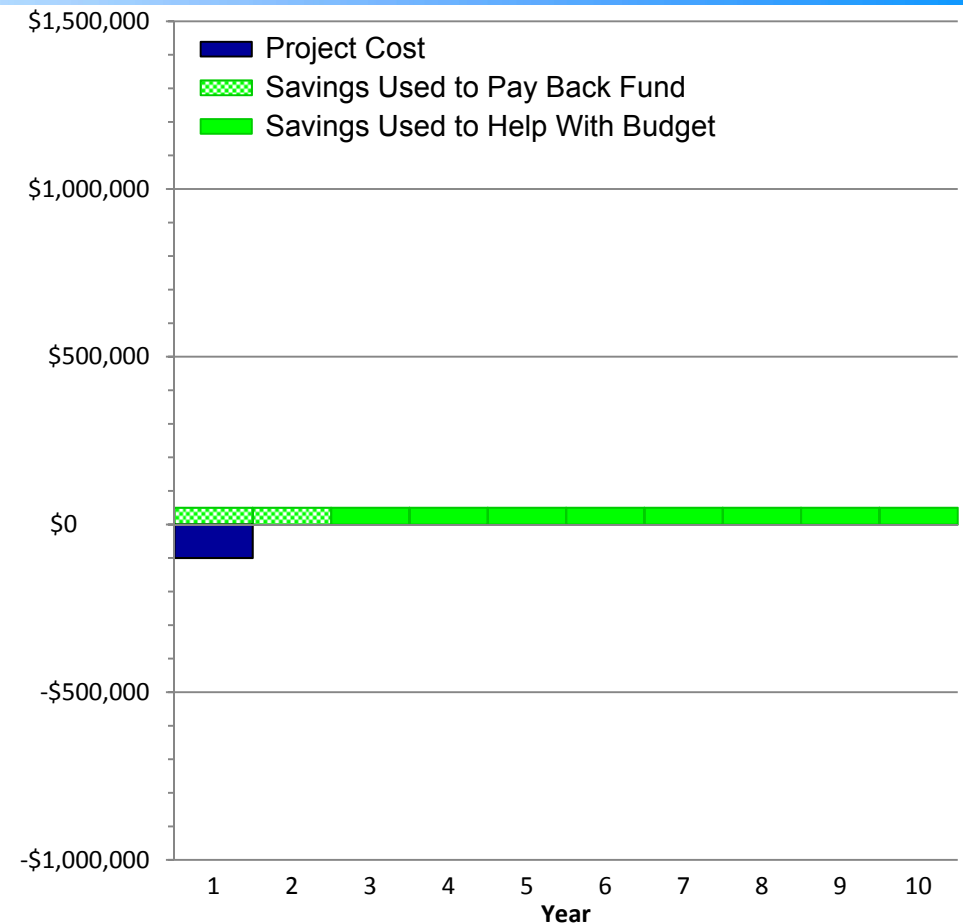
Pay-It-Forward is the key to Growth



How Pay-It-Forward Works... 1

Typical Funding

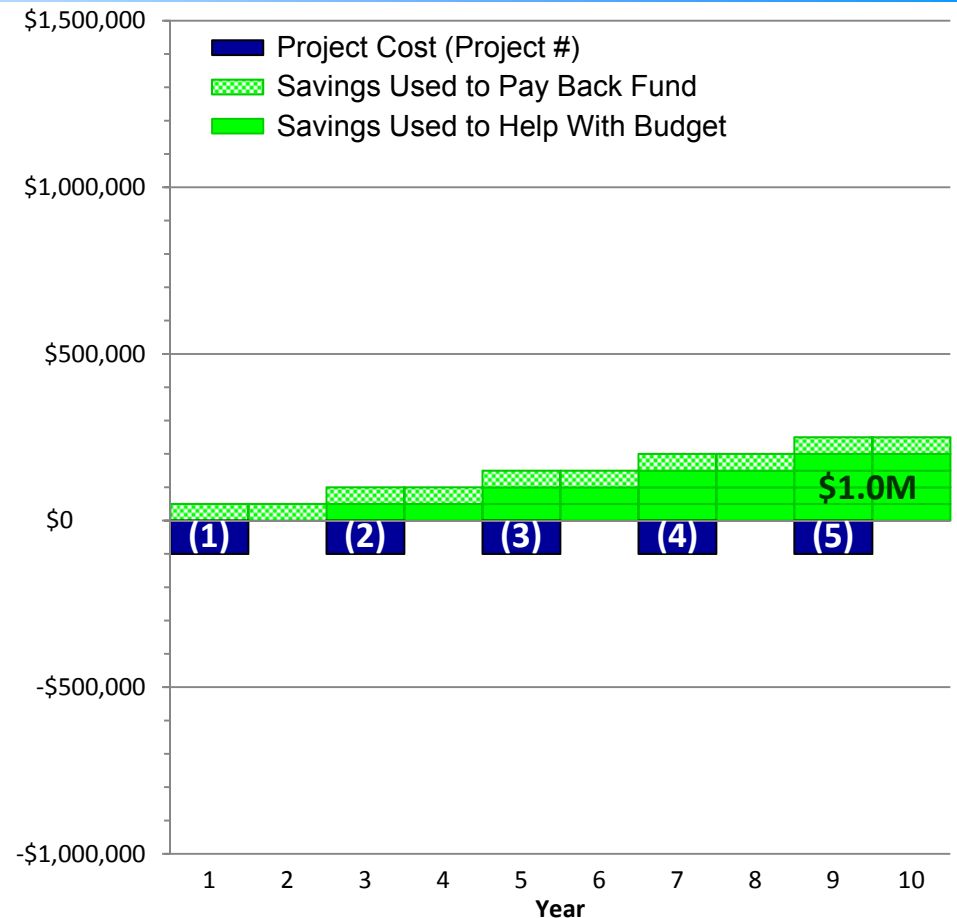
- Assume a \$100k fund
- \$100k lighting project is funded in Year 1 and saves \$50k/year in energy
- Savings used to repay fund in 2 years
- Savings then used for long-term budget relief



How Pay-It-Forward Works... 2

A Revolving Fund

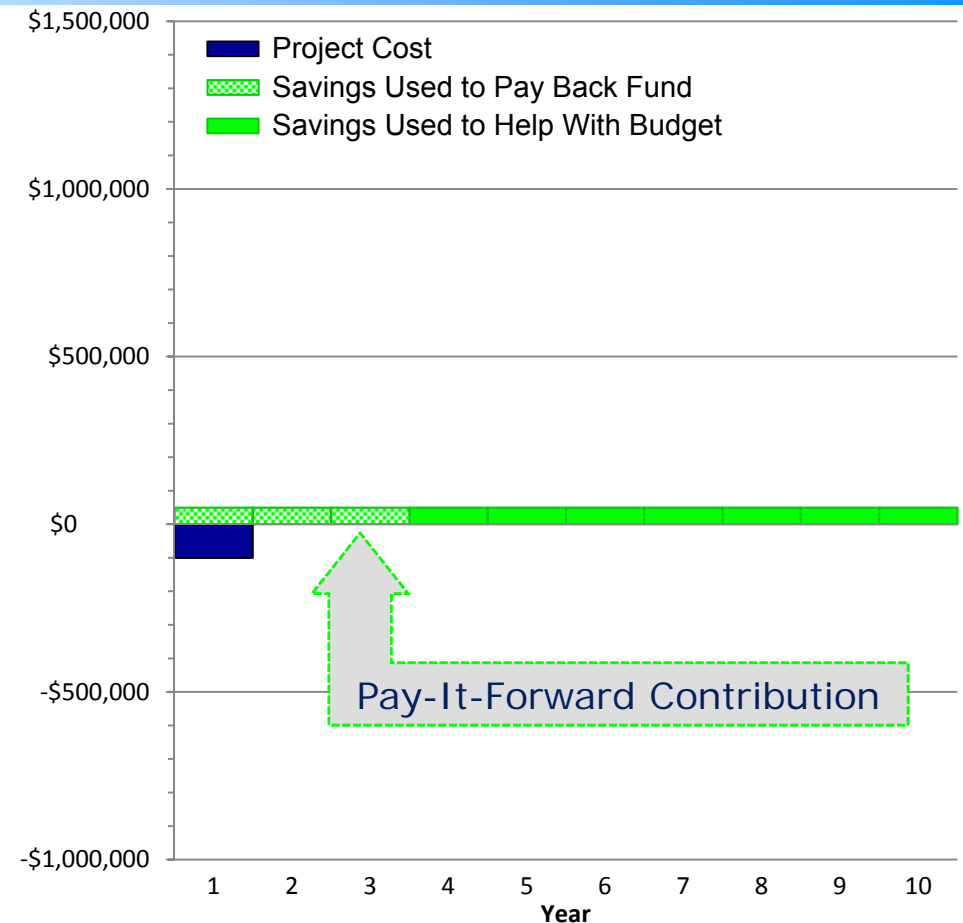
- Repayments are used to fund the next projects
- 5 projects in 10 years & \$1M budget relief
- \$250k/year long-term annual budget relief
- Fund value stays at \$100k



How Pay-It-Forward Works... 3

Pay-It-Forward

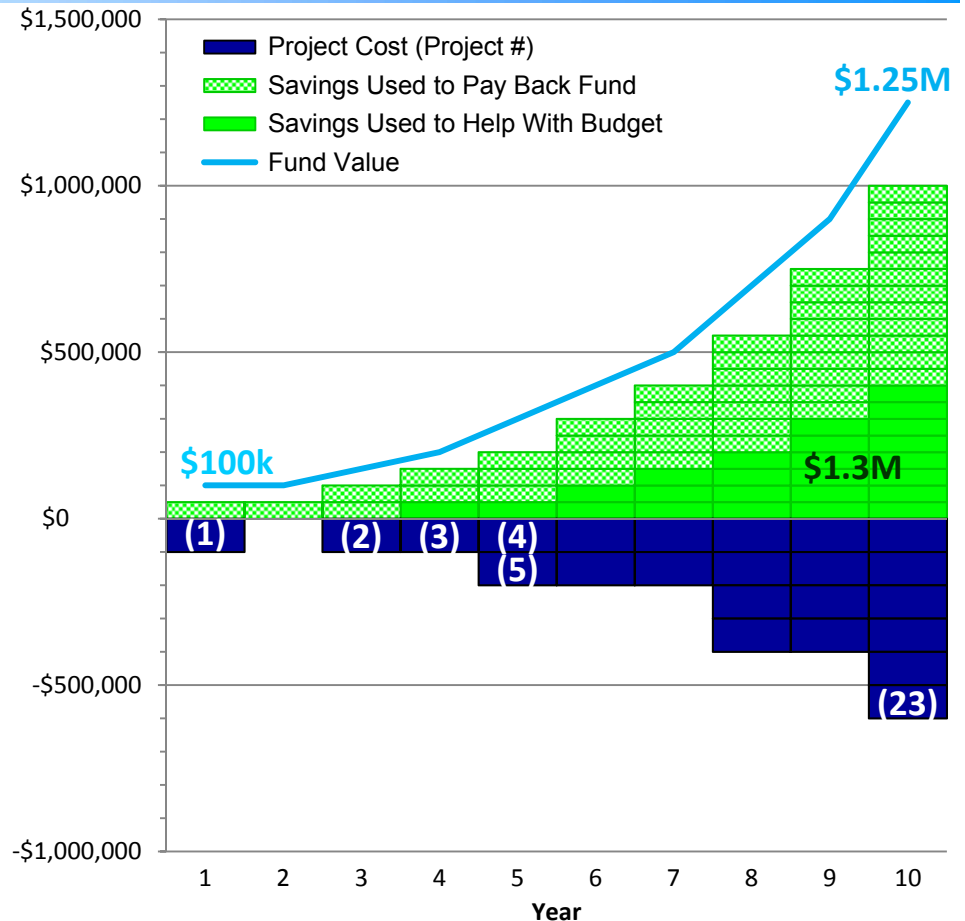
- Savings used to repay fund plus an extra Pay-It-Forward contribution
- Fund grows to \$150k after the first project.
- Appeals to those wanting to fund more projects and save a lot more money



How Pay-It-Forward Works... 4

Pay-It-Forward Fund

- 23 projects in 10 years & \$1.3M budget relief
- \$1.15M/year long-term annual budget relief
- Fund value grows to \$1.25M
- This example may be overly optimistic, but compound growth is real



What To Do With All That Money?

- **Keep doing more projects**
 - More savings, achieve energy goals, etc.
- **As new EE opportunities wind down:**
 - **Fund can be repurposed**
 - Renewable energy projects with longer paybacks
 - Private sector projects
 - Or...?
 - **Annual budget savings continue long-term**

Where to Find Seed Money



External Financing vs. Internal Funding

External Financing

- **Not great for Pay-It-Forward**
- **Pay back lender with interest**
- **Many Financing Options**

Performance contractors

Qualified Energy Conservation Bonds

Tax Exempt Leases

Utility on-bill financing

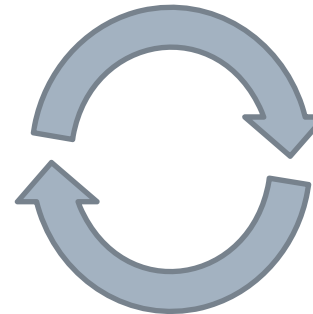
Private lenders or investment firms

Foundation low-interest loans

- **Good for many big projects!**

Internal Funding

- **Ideal for Pay-It-Forward**
- **Pay back yourself**



- **Many Funding Options**
See next 2 pages
- **Simpler funding process!**

Potential Sources of Seed Money - 1

- **State Investment Accounts**
 - Treasurer's Funds – highly secure and attractive returns
 - State School Land Trust Fund – www.childrenslandalliance.com
- **General budgets**
- **Capital improvement budgets**
- **From existing projects**
 - Utility rebates or incentives that are not essential to the project
 - Project savings could be used for a Pay-It-Forward contribution

Potential Sources of Seed Money - 2

- **Savings from no-cost and low-cost programs**
 - Behavioral change programs
 - Utility billing audits (0.5% error rate is typical)
 - Utility demand response programs
 - Competitive energy procurement
 - Retro-commissioning
- **For colleges**
 - Endowment funds, student fees, grants, donors, etc.
- **It doesn't take much money to get started**

Result: Growing EE Fund and Savings



Thank You!

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